Construction and methodology

Russell Conscious Currency®
Index Series
v1.2
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Section 1

Introduction

1.0 Introduction

1.1 The Russell Conscious Currency® Index (RCCI) Series

1.1.1 The Russell Conscious Currency® Index (RCCI) Series is designed to reflect the performance of common foreign currency market factors Carry, Value and Trend. These indexes are built based on transparent and objective rules and provide investors non-discretionary benchmarks when investing in the foreign exchange market. The RCCI series is presented as naïve representations of the currency markets, and may serve, individually or in combination, as appropriate benchmarks for currency managers. Taken together as a combined index, the Russell Conscious Currency Index may be used as a benchmark to describe the behavior of the currency market as a whole.

1.2 Available indexes

1.2.1 The Russell Conscious Currency Index Series includes the following four indexes:

- Russell Conscious Currency Index
- Russell Conscious Currency Carry Index
- Russell Conscious Currency Value Index
- Russell Conscious Currency Trend Index

1.3 The base currency of the benchmark is US Dollars. Index values may also be published in other currencies.

1.4 The Russell Conscious Currency Index is calculated as a total return index.

1.5 FTSE Russell

1.5.1 FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC and The Yield Book Inc.

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1 Russell Index Methodologies are continually reviewed by product managers. Topics under consideration may result from direct inquiry, request for clarification, market observation or research; considerations are analyzed against 4 guiding principles of index methodology (Objective representation, replicable, transparent, passively manageable at a reasonable cost). Evaluation procedures include historical analysis of potential impacts of methodology changes and how turnover, fundamental characteristics and measurement of segment, factor, style or asset class is affected.
1.5.2 FTSE Russell hereby notifies users of the index that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.5.3 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index’s rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on this Construction and Methodology, and/or
- any errors or inaccuracies in this Construction and Methodology, and/or
- any non-application or misapplication of the policies or procedures described in this Construction and Methodology, and/or
- any errors or inaccuracies in the compilation of the index or any constituent data.

1.6 Index design

**Value index**

Value aims to capture long exposure to undervalued currencies and short positions in overvalued currencies.

**Trend index**

Trend aims to capture long exposure to positive trend currencies and short positions in the lowest or negative trend currencies.

**Russell Conscious Currency Index (RCCI)**

- The combined Russell Conscious Currency Index is constructed by weighting the Carry, Value and Trend indexes equally, giving each component index a weight of 1/3.
- Each index differs in strength and explanatory power.
- Factors are weighted equally to represent a naïve benchmark measure.

**Carry index**

Carry aims to capture long exposure to high-yielding currencies and short positions in low-yielding currencies.
Section 2

Management Responsibilities

2.0 Management Responsibilities

2.1 FTSE International Limited

2.1.1 FTSE is the benchmark administrator of the index series.\(^2\)

2.1.2 FTSE Russell is responsible for the daily calculation, production and operation of the index series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indexes.

2.2 Amendments to These Ground Rules

2.2.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to meet the current and future requirements of investors and other index users. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

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\(^2\) The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation).
Section 3

FTSE Russell Index Policies

3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

3.1 Queries and Complaints
3.1.1 FTSE Russell’s complaints procedure can be accessed using the following link:

Benchmark_Determination_Complaints_Handling_Policy.pdf

3.2 Policy for Benchmark Methodology Changes
3.2.1 Details of FTSE Russell’s policy for making benchmark methodology changes can be accessed using the following link:

Policy_for_Benchmark_Methodology_Changes.pdf
Section 4

Defining the currency universe

4.0  Defining the currency universe

4.1.1  Currencies currently eligible to be constituents of the Russell Conscious Currency Index Series, representing major developed market currencies, are:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUD</td>
<td>Australian Dollar</td>
</tr>
<tr>
<td>CAD</td>
<td>Canadian Dollar</td>
</tr>
<tr>
<td>CHF</td>
<td>Swiss Franc</td>
</tr>
<tr>
<td>EUR</td>
<td>Euro</td>
</tr>
<tr>
<td>GBP</td>
<td>Pound Sterling</td>
</tr>
<tr>
<td>JPY</td>
<td>Japanese Yen</td>
</tr>
<tr>
<td>NOK</td>
<td>Norwegian Kroner</td>
</tr>
<tr>
<td>NZD</td>
<td>New Zealand Dollar</td>
</tr>
<tr>
<td>SEK</td>
<td>Swedish Kroner</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
</tbody>
</table>

Section 5

Constructing the Index

5.0 Steps in constructing the Russell Conscious Currency Index

5.1.1 Gather forward rates, spot rates, and PPP data for each currency. Note: For spot rates, currency/USD is used to calculate carry and value metrics; USD/currency is used to calculate the trend metric.

5.1.2 Calculate Carry, Value and Trend metrics for each currency.

5.1.3 Rank currencies for each component index based on corresponding metrics, i.e. use Carry metric to determine currency’s rank in Carry Index, etc. For Carry and Trend, the currency with the highest metric is assigned to the top rank and the currency with the lowest metric is assigned to the bottom rank. For Value, the most undervalued currency is assigned to the top rank and the most overvalued currency is assigned to the bottom rank.

5.1.4 Allocate 1/3 long position to each of the three top-ranked currencies and 1/3 short position to each of the three bottom-ranked currencies.

5.1.5 Allocate a weight of 1/3 to each component index to create the composite RCCI. Note, when one component index goes long a currency and a different component index goes short the same currency, the net position of the currency in the RCCI is zero.
Section 6

Calculation of metrics

6.0 Calculation of metrics

6.1.1 Carry metric: The Carry metric is represented by the 1-month forward rate divided by the spot rate, averaged over 10 days, i.e. 10-day average of (1-month forward rate / spot rate)

6.1.2 Value metric: The Value metric is represented by the spot rate averaged over 20 days, divided by PPP, i.e. (20-day average of spot rate) / PPP.

6.1.3 Trend metric: The Trend metric is represented by the difference of the spot rate averaged over 50 days and the spot rate averaged over 200 days, divided by the spot rate averaged over 200 days, i.e. [(50-day average of spot rate) – (200-day average of spot rate)] / (200-day average of spot rate)
Section 7

Index maintenance

7.0 Index maintenance

7.1.1 Russell Conscious Currency Indexes are proactively maintained and reflect daily changes in the global currency market. The RCCI series is reconstituted monthly. Index membership is determined based on market information 5 business days prior to month-end, implemented following the currency market close of the last business day of the month. WM/Reuters holidays are observed.
Section 8

Historical construction rules

8.0  Historical construction rules

8.1.1 Index history from November 30, 1999 through March 29, 2013 was constructed based on a 5-day business week calendar (Monday-Friday), without accounting for WM/Reuters holidays.

8.1.2 Historical PPP was updated annually as of December of each year.
Section 9

Data sources

9.0 Data sources

9.1.1 Daily closing spot and closing forward rates are provided by WM Reuters. The calculation of these closing rates based on 16:00 London time. However, if applicable WM may provide a different official closing time due to national holidays, failure of the supply source, or special market conditions. Russell will use the price WM determines as official. Reuters is the primary source of foreign exchange rates collected by WM Reuters. Other sources may be used by exception where the appropriate rates are not available on Reuters.

9.1.2 PPP values are provided by the OECD.
Section 10

Calculation of closing spot rates and forward rates

10.0 Calculation of closing spot rates and forward rates

10.1.1 WM Reuters calculates and disseminates spot rates by taking a number of snapshots of the source rates from Reuters. These will be at regular intervals centered on the fixing time of the relevant rate being calculated. The median rates will then be selected from these individual snapshots for each currency.

10.1.2 A capture of current quotes is taken from WM Reuters as close as possible to 16:00 London time for the Closing Forward Rate. Quotes to USD will normally be used although this may be varied depending on market experience.
Appendix A: Further Information

A Glossary of Terms used in FTSE Russell’s Ground Rule documents can be found using the following link:

Glossary.pdf

For further information on the Russell Conscious Currency Index Series Ground Rules visit www.ftserussell.com or e-mail info@ftserussell.com. Contact details can also be found on this website.

For more information about our indexes, please visit ftserussell.com.